**Sample Monitoring Report, based on CBLD template policy**

Annual Monitoring Report, *April 30, 2014*

Policy: B1 – Financial Condition and Activities, Last revised: May 22, 2014

**I report compliance with all parts of this policy except B1.2 and B1.5.**

Unless indicated otherwise, all data in this report is for FY13 and is accurate as of April 15, 2014.

I certify that the information contained in this report and attachments is true.

Signed\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, General Manager

Attachments: Balance Sheet, Income/Expense Statement, memo from most recent external audit

With respect to the actual, ongoing financial conditions and activities, the General Manager shall not cause or allow the Cooperative to be unprepared for future opportunities, the development of fiscal jeopardy or key operational indicators to be below average for our industry.

**Interpretation:**

In order to be prepared for future opportunities, the co-op must not only avoid “fiscal jeopardy;” we must also set and achieve financial goals that are clearly designed with growth in mind. Our 2014-2017 multi-year plan includes more detail about our goals and the rationale behind them; this report will reference those goals as benchmarks for achievement in sub-policies 1-5.

For sub-policies 1-4, I will interpret the policy in a way that addresses both jeopardy and preparing for future opportunities. Sub-policy 5 deals primarily with being prepared for the future. Sub-policies 6-10 are less relevant to future preparations, but still certainly address various aspects of “fiscal jeopardy.”

We achieve our financial goals (and our Ends) by striving for excellence in operations. There are many measures of operational health and excellence; for the sake of this report, relevant key operational indicators are those measures that say a lot about operational efficiency and for which we have comparison data from other co-ops. These key indicators are:

* Sales growth
* Margin minus Labor (before taxes/benefits)
* Sales/labor hour
* Inventory turnover
* EBITDAP
* Growth in owner paid-in equity

For each of the key operational indicators, our co-op’s performance in any given reporting period should be at or above the median for similar co-ops in that same period. Co-ops that are similar to ours include those that have sales in the $x to $y range.

**Operational Definition:**

* See the sub-policies below for further interpretations and definitions.
* For each of the key operational indicators, our annual performance should be at or above the median for similar-size co-ops.

**Data**:

(Compliance is based only on data for most recent year. Data from previous years is included on FYI basis only.)

* Please look below for my definitions and data for each of the sub-policies.
* For the key indicators of Sales, EBITDAP and Owner Paid-in Equity, comparison data will be included with those sub-policies.
* **Margin Minus Labor**

Margin Minus Labor (2013) = 22.22%

Median for medium co-ops = 19.75%

* **Sales/Labor Hour**

Sales per Labor Hour = 65.25

Median for medium co-ops = 69.29

* **Inventory turnover**

Inventory turnover = 13.29

Median for medium co-ops = 13.29

The GM will not:

1. Allow sales to be inadequate.

**Interpretation:**

Managers of NCGA co-ops, as part of the CoCoFiSt program, have set a benchmark for fiscal jeopardy for sales growth at 3%. Our multi-year plan includes a goal of 5%. So for the purposes of this report, compliance will be achieved if sales growth is above both 5% and the median for similar-size (medium) co-ops.

**Operational Definition:**

Sales growth must be above both 5% and the group median for compliance.

**Data:**

Sales Growth = 15.10%.

Median Sales Growth = 8.67%

Data used is Total Annual Sales as shown on attached Income/Expense Statement compared to Total Sales of the previous year.

1. Allow operations to generate an inadequate net income.

**Interpretation:**

There are two important ways to look at income: the bottom line (net income) and EBITDAP (Earnings Before Interest, Taxes, Depreciation/Amortization and Patronage.)

EBITDAP is useful as a comparison tool. We can gauge the soundness of our operations by comparing our performance to that of our peers. As with all peer comparisons in this report, compliance will be achieved if our performance is above the median.

For net income, the CoCoFiSt benchmark for jeopardy is set at 0.5%. Our multi-year plan includes a goal of 3%. So for the purposes of this report, compliance will be achieved if Net Income is above 3%.

**Operational Definition:**

* EBITDAP (as a % of sales) from the most recent year must be above the median for our peer group.
* Actual net income as a % of sales from the most recent year must be above 3%.

**Data:**

* **EBITDAP**

EBITDAP = 5.73%

Median for medium co-ops = 3.57%

* **Net Income**

Net Income = 2.16%.

**Explanation and Plan:**

*Here the GM would explain the out-of-compliance situation, and her/his plan for managing the situation.*

1. Allow liquidity (the ability to meet cash needs in a timely and efficient fashion) to be insufficient.

**Interpretation:**

There are two common and useful measures of liquidity: Current Ratio (Current Assets divided by Current Liabilities) and Quick Ratio [(Current Assets – Inventory) divided by Current Liabilities]

The CoCoFiSt benchmark for jeopardy (minimally adequate liquidity) is a Current Ratio of 1.25 and a Quick Ratio of 0.70. Our ABC Bank loan includes a covenant that we maintain at least a 1.1 Current Ratio. Our multi-year plan includes a Current Ratio goal of 2.0 and a Quick Ratio of 1.0. So for the purposes of this report, compliance will be achieved if the Current Ratio is above 2.0 and the Quick Ratio is above 1.0.

**Operational Definition:**

* The Current Ratio should be above 2.0.
* The Quick Ratio should be above 1.0.

**Data:**

* Current Ratio = 3.10
* Quick Ratio = 1.24

1. Allow solvency (the relationship of debt to equity) to be insufficient.

**Interpretation:**

The Debt to Equity ratio, Total Liabilities divided by Total Equity is a commonly used measure of solvency.

The CoCoFiSt benchmark for jeopardy is a Debt to Equity Ratio above 3.0. Our ABC Bank loan includes a covenant that we maintain a Debt to Equity Ratio below 6.5. Our multi-year plan includes a goal of 3.0. So for the purposes of this report, compliance will be achieved if the Debt to Equity Ratio is below 3.0.

**Operational Definition:**

Our actual Debt to Equity ratio must be below 3.0.

**Data:**

Debt to Equity = 0.40

1. Allow growth in ownership and owner paid-in equity to be insufficient.

**Interpretation:**

Our multi-year plan includes a goal of 5% annual growth in the number of owners.

There is no NCGA benchmark for owner paid-in equity, but we consider growth in owner paid-in equity will be *sufficient* if it both meets our own goals (Our multi-year plan shows that our goal is for this to grow on pace with annual sales growth of 5%) and if our total paid-in equity is above the median for similar co-ops.

**Operational Definition:**

* The number of co-op owners will grow at least 5% annually.
* Owner paid-in equity will grow at least 5% annually.
* Total paid-in owner equity will be above the median for co-ops in our peer group.

**Data:**

* Ownership growth = 15.2%

FYI: # of owners as of 12/31/13 = 9103

* Paid-in equity growth = 15.7%
* Total paid-in equity = $392, 910

**Explanation and Plan:**

*Here the GM would explain the out-of-compliance situation, and her/his plan for managing the situation.*

1. Default on any terms that are part of the Cooperative’s loans.

**Interpretation:**

We will incorporate any requirements placed on us by our lenders into our regular assessment of financial conditions. Currently we have a financing agreement with the ABC Co-op Loan Fund.

**Operational Definition:**

Included in the table below

**Data:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Lender** | **Loan Requirement** | 12/31/13  actual | 12/31/12  actual | 12/31/11  actual |
| ABC Co-op Fund | **Debt Service Coverage Ratio (DSCR)** of not less than 1.25 as of the end of each fiscal year.  (DSCR = Earnings before Interest, Taxes, Depreciation and Amortization divided by Debt Service on the Loan) | 1.65 | 1.28 | 1.08 |
|  | **Debt to Equity Ratio** no more than 4.5 at all times. | 3.5 | 4.1 | 5.2 |
|  | **Current Ratio** of not less then 1.1 at all times. | 1.2 | 0.97 | 1.15 |
|  | **Payments** must be current | $xx | $xx | $xx |
|  | **Capital Budget** must be approved. Date of approval: | 5/15/2013 | 5/2/2012 | 5/12/2011 |

1. Allow late payment of contracts, payroll, loans or other financial obligations.

**Operational definition / Interpretation:**

1. Contracts are agreements between the Co-op and another party. They include, for example, purchasing contracts with United Natural Foods, and our contract with CDS for the CBLD board development program. Contracts are considered settled in a timely manner unless we receive notice that our payment is past due.
2. Payroll is the sum of wages and benefits paid to staff. It is considered settled in a timely manner if employees receive their wages and benefits as outlined in the Employee Handbook, and if no employee makes a valid grievance concerning untimely payment.
3. Loans are anything listed as “Notes Payable” on our Balance Sheet. They are considered settled in a timely manner if we make payments according to the note, and if we receive no notice that our payment is past due.
4. Other financial obligations include our commitment to …...

**Data:**

1. We received no past due notices this reporting period.
2. Employees received their paychecks on time every pay period. No grievances (valid or otherwise) concerning payment were filed this reporting period.
3. We paid all notes according to terms this reporting period. We received no notices of late payment from any note holder.
4. Other Commitment

|  |  |  |
| --- | --- | --- |
| Fiscal Year | Payment to  …. | Amount Remaining  at end of FY |
| 2011 | 0 | 90,000 |
| 2012 | 10,000 | 80,000 |
| 2013 | 12,800 | 67,200 |
| 2014 |  |  |

1. Incur debt other than trade payables or other reasonable and customary liabilities incurred in the ordinary course of doing business.

**Interpretation:**

Management may not incur new indebtedness except as trade payables, ordinary credit lines, and leases for equipment necessary in the ordinary course of business.

**Operational definition:**

Compliance will be achieved if, since the last report, no new indebtedness is reflected on the Balance Sheet other than those described above.

**Data:**

The following information is taken from the Liabilities section of the attached Balance Sheet. It shows no new liabilities.

The board approved the following liabilities, or potential liabilities, that are still active. Items 1 and 2 are listed on attached Balance Sheet.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Item |  | Date of board approval | Original Loan Amount | Current Loan Amount | Notes |
| 1 | ABC Loan | 6/1/10 | $X,XXX,XXX | $X,XXX,XXX |  |
| 2 | Member Loans | 6/1/12 | $XXX,XXX | $XXX,XXX |  |
| 3 | NCGA – contingent liability | x/x/xx | While it’s not anticipated that an actual liability will be realized from our agreement with the NCGA, the board did approve the contingent liability that may arise from participation in the joint purchasing agreement. | | |

1. Acquire, encumber or dispose of real estate.

**Interpretation:**

This policy limits the GM from purchasing or committing to purchase any real estate; only the Board has the authority to make any kind of real estate (land or buildings) deal.

**Operational definition:**

Real estate is considered a fixed asset, and is listed as such on our balance sheet. The land and buildings fixed assets on the current balance sheet should be the same as on the previous quarter’s balance sheet – unless the board has specifically authorized a purchase or sale.

**Data**:

I have made no real estate purchases or commitments. The only real estate asset listed in the Fixed Assets section of the Balance Sheet is our “Building East.”

1. Allow tax payments or other government-ordered payments or filings to be overdue or inaccurately filed.

**Interpretation:**

Our only “government-ordered” payments are the various taxes we pay.

**Operational definition:**

* All taxes due will be paid on time.
* We will receive no notice from the government that our taxes are unpaid, paid late, or inaccurately filed.

**Data:**

* Annual payment schedule

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Date Due** | **Date Paid** | **Amount Paid** |
| **Payroll Tax** |  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Sales Tax** |  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **Federal Income Tax** |  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| **State Income Tax** |  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| ***etc, etc*** |  |  |  |

* This year we received no notice of overdue or inaccurate payments.

1. Use restricted funds for any purpose other than that required by the restriction.

**Interpretation:**

Restricted funds are any money or account controlled by the Board of Directors or outside authority for a specific purpose. Only the board or that outside authority may alter the spending assignment for that money.

**Operational Definition:**

* Restricted funds are clearly identified on our balance sheet.
* The amount of any restricted fund should only change according to decisions of the controlling authority.

**Data:**

Restricted funds controlled by the board: none.

Restricted funds controlled by others: The ABC Bank requires that we maintain a cash reserve account, depositing $2,285/month into the account until it accumulates a balance of $401,000. The ABC Bank must approve all disbursements from this reserve.

* The “Cash Reserve – ABC” line item in the Current Assets section of the Balance Sheet shows the amount of money in this restricted account.
* None of these funds were spent this year.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Fund/  FYE Balance | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | FY 13 disbursements |
| Cash Reserve | 68,550 | 72,150 | 99,570 | 126,990 | 154,410 | 181,830 | none |

1. Allow financial record keeping systems to be inadequate or out of conformity with GAAP.

**Operational definition:**

The co-op’s financial record keeping systems will comply with Generally Accepted Accounting Principles (GAAP).

A qualified third party from outside the organization will review the co-op’s accounting systems on an annual basis to a level of depth necessary to provide an opinion regarding compliance with GAAP. The external auditor hired by the board to perform the annual audit qualifies as this party.

Compliance will be achieved if the auditor provides a “clean” or unqualified letter regarding conforming to GAAP.

**Data:**

In the *[date]* “Independent Auditor’s Report on the Financial Statements,” [*Auditor Name*] states that our financial statements are “in conformity with accounting principles generally accepted in the United States of America.”

Attachment: letter from the auditor.